

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

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LARRY WALKER

Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK

Assistant Auditor/Controller-Recorder
Assistant County Clerk

October 1, 2004

BOARD OF SUPERVISORS

County Government Center
385 North Arrowhead Avenue, Fifth Floor
San Bernardino CA 92415-0110

Enclosed are copies of the audit reports prepared by the Internal Audits Section for the quarter ending September 30, 2004.

Respectfully submitted,

Larry Walker

AUDITOR/CONTROLLER-RECORDER

By: _____
Howard M. Ochi
Chief Deputy Auditor

LDW:HO:spr

Attachments (5)



AUDIT REPORTS
PREPARED BY INTERNAL AUDITS SECTION
FOR THE QUARTER ENDING
SEPTEMBER 30, 2004

Office of
AUDITOR/CONTROLLER-RECORDER

DEPARTMENTS

FISCAL GROUP

Treasurer's Investment Audit – March 26, 2004

INTERNAL SERVICES GROUP

Audit of the Central Stores Inventory Valuation as of June 30, 2003

OTHERS

Management Letter – County Administrative Office – Certified Statements of Assets
& Other Property Transferred

SPECIAL DISTRICTS

PARK AND RECREATION DISTRICT

Management Letter – San Bernardino County Special District - Big Bear Valley Park
and Recreation – for the Fiscal year Ended June 30, 2003

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Assistant Auditor/Controller-Recorder
Assistant County Clerk

May 18, 2004

Richard Larsen, Treasurer-Tax Collector
172 W. Third Street, First Floor
San Bernardino, CA 92415-0360

SUBJECT: TREASURER'S INVESTMENTS AUDIT MARCH 26, 2004

Introductory Remarks

In accordance with California Government Code Sections 26920 and 26922 and County Board of Supervisor's resolution dated July 6, 1971, we have completed a reconciliation of the Treasurer's Cash Book as of March 26, 2004. In addition, we evaluated investments for compliance with California Government Code Section 53601, "Securities Authorized for Investment" and with the Treasurer's Investment Policy.

Scope of Audit

We audited selected financial transactions, operations, procedures, and controls in effect over cash and investments. Our audit was made in accordance with generally accepted auditing standards and included such tests of the records and other auditing procedures as we considered necessary in the circumstances.

Audit Results

Cash and investments of \$2,994,871,030, as stated in the Treasurer's cashbook at March 26, 2004, reconciled to supporting documentation in all material respects. There were no instances of non-compliance noted in the evaluation of compliance with California Government Code Section 53601 and the Treasurer's Investment Policy.

Our study and evaluation, made for the limited purpose described above, would not necessarily disclose material weaknesses in internal controls. Nothing came to our attention that indicated procedures and controls are not materially adequate.

Audtrpt\Treasurer Investments
Richard Larsen, Treasurer-Tax Collector
May 18, 2004
Page 2 of 2

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Carol Lombard
Internal Auditor II
Internal Audits Section

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

August 19, 2003

Aurelio W. Del La Torre, Director
Internal Services Group - Purchasing
777 East Rialto Avenue
San Bernardino, CA 92415-0765

**SUBJECT: AUDIT OF THE CENTRAL STORES INVENTORY VALUATION AS OF
JUNE 30, 2003**

Introductory Remarks

In accordance with Section V of the Auditor/Controller-Recorder's Year-End Closing Manual for Fiscal Year 2003, Central Stores conducted an inventory of all stock items. We observed the physical inventory on June 27, 2003 and have issued our opinion below on the inventory valuation.

Scope of Audit

Our audit was made in accordance with generally accepted auditing standards and included such tests of the accounting records and other procedures as we considered necessary in the circumstances. Our audit was limited to monitoring the processes for compliance to the procedures over purchasing, receiving and shipping reports for the period from July 1, 2002 to June 30, 2003. Our audit would not necessarily disclose all material weaknesses in the system of internal control.

Auditor's Opinion

In our opinion, \$307,665 computed using the average inventory cost method is a fair valuation of the Central Stores inventory at June 30, 2003.

Findings & Recommendations

During our testing of inventory procedures and controls, we became aware of matters that we consider opportunities for strengthening internal control and operating efficiency. Based on the results of our audit, we identified one finding.

Finding 1: Transactions were not recorded timely.

Central Stores utilizes a perpetual inventory system. This method allows for more timely and accurate inventory data, as opposed to a yearly or monthly value determination. Accordingly, inventory is to be input into the system on a daily basis. However, tests performed after fiscal year end June 30, 2003 indicated that inventory items received were being saved and entered into the system in batches rather than being entered daily. The audit identified nine transactions that were not recorded into inventory timely. The risks associated with not updating the inventory system on a timely basis can result in pilferage and an understatement of inventory.

Recommendation:

Update written inventory policies and procedures to include definitive deadlines for fiscal staff to input goods into the perpetual inventory system. Utilizing the revised Central Stores Manual, conduct training to foster the development of staff's skills and knowledge so that staff can carry out perpetual inventory operations effectively and efficiently.

Department Response:

After the audit last year we implemented the change recommended in this report by having the Central Stores staff process the documents as they come in. They no longer save up the documents and batch them together. They are processed timely. These are the procedures in our Central Stores manual.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Carla D. O'Ferrall
Internal Auditor II
Internal Audits Section

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

June 23, 2004

MARK UFFER

Interim County Administrative Officer
County Administrative Office
County of San Bernardino
385 North Arrowhead Avenue, Fifth Floor
San Bernardino, CA 92415-0120

Subject: MANAGEMENT LETTER

We have reviewed the Certified Statements of Assets & Other Property Transferred reports dated March 11 and March 16, 2004, for the County Administrative Office. In performing our review of the petty cash fund transactions, we noted certain matters involving internal controls and their operation, which are presented for your consideration.

We do not consider the matter to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

These comments and recommendations are intended to improve internal controls or result in other operating efficiencies and are summarized as follows.

FINDINGS AND RECOMENDATIONS

Finding One: Petty cash fund procedures could be improved.

The County Cash Fund Policy discussed in Chapter 4 of the Internal Controls and Cash Manual, requires the following:

- Petty cash funds may not be used to purchase any one item in excess of \$250 including tax, shipping, etc.
- Petty cash funds may not be disbursed, regardless of the amount, for employee travel or mileage expenses unless expressly authorized by the Auditor-Controller/Recorder.
- Petty cash vouchers should be completed for cash advances and reimbursements in permanent ink, stating the date, purpose of the expenditure and the amount to be expended.
- An authorized employee of a higher-ranking job code than the requestor must approve the petty cash voucher.

In performing our review of the petty cash fund, we noted the following conditions:

- There was one instance where a payment of \$800 was made to a vendor.
- There were five instances where the petty cash fund was used for employee reimbursements for luncheon meetings and toll road expenses.
- Petty cash vouchers were not completed or used to request reimbursements from petty cash.
- There were thirteen instances where the expenditures were not properly authorized for payment. Seven of these expenditures were not approved by a higher-ranking employee other than the requestor.

Following established petty cash procedures will help ensure that only authorized transactions are processed.

Recommendations

Follow petty cash procedures outlined in the County Internal Controls and Cash Manual. Obtain appropriate approval for all transactions before processing invoices for payment.

Management Response

The \$800 payment was for the 2004 NACO Achievement Awards Applications and was comprised of 16 department's application fee of \$50 each. The County Administrative Office takes the lead in submitting the applications to NACO and is reimbursed by each department for the application fees. Prior to the County Administrative Office completing this course of action, approval was received from the Auditor's Office. However, we do not have this in writing. In the future the County Administrative Office will obtain approval, in writing, from the Auditor's Office to pay the application fees out of petty cash or submit a RUSH (Overnight) payment voucher.

County Administrative Office staff were advised on April 16, 2004 that they would no longer be able to be reimbursed out of petty cash for the cost of lunch meetings, travel related expenses, etc., and that they would need to submit a travel claim for reimbursement. No such claims have been paid from petty cash since this date.

A petty cash log, requiring employees to sign for cash or check purchases was implemented. This log is utilized when employees are reimbursed for office expenses, etc.

All invoices/receipts are now approved for payment prior to petty cash (cash or check) being issued. The County Administrative Office will also ensure that the approval is from a Deputy Administrative Officer or above depending upon the rank of the individual requesting the use of petty cash.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Yolanda Daugherty
Internal Auditor II
Internal Audits Division

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LARRY WALKER

Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK

Assistant Auditor/Controller-Recorder
Assistant County Clerk

March 19, 2004

Tom Sutton, Director

Office of Special Districts

157 W. Fifth Street, Second Floor

San Bernardino, CA 92415-0450

**Subject: MANAGEMENT LETTER – SAN BERNARDINO COUNTY SPECIAL
DISTRICT – BIG BEAR VALLEY PARK & RECREATION - FOR THE
FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Big Bear Valley Park and Recreation District ("District") for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying balance sheet of the District as of June 30, 2003, and the related financial statements for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. As part of our audit, we made a study of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Nature of Internal Control

The management of the District is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related

costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the District. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the Board of Supervisors and should not be used for any other purpose.

FINDINGS AND RECOMMENDATIONS

Finding One: Bank deposits were not properly prepared.

The County's Internal Control and Cash Manual (Chapter 9, Bank Deposit Guidelines, #11) requires that deposit slips be prepared in quadruplicate. The bank retains the original and a duplicate copy. The triplicate copy is validated by the bank to serve as the official record of the deposit. The fourth copy is to be retained in the office until the validated 3rd copy or triplicate has been returned by the person making the deposit. The District was using a 3 part deposit slip to make bank deposits and relying on the bank statement to verify deposits.

Recommendations

Implement the use of quadruplicate bank deposit slips and retain the 4th copy in the office until the validated triplicate copy (bank retains copies 1 & 2) has been returned by the person making the deposit. This copy assists in establishing accountability in the event a deposit is lost or stolen enroute to the bank.

Management's Response

Following the exit conference, the District ordered and is currently utilizing quadruplicate bank deposit slips and using the triplicate copy for bank deposit verification as recommended.

Finding Two: Employees are not required to submit an original receipt for Special Purpose Fund expense reimbursement.

An original receipt is required for all items of expense reimbursement. There were four instances where the District reimbursed an employee without requiring an original receipt.

Recommendations

Require employees to submit an original receipt for expense reimbursement.

Management's Response

Following the exit conference, the District reinforced its practice of requiring original receipts before issuing an expense reimbursement.

Finding Three: Cash management of bank account balances could be improved.

The County's Internal Control and Cash Manual (Chapter 7, page 7-2) states that deposits must be made at least weekly into the County Treasury. The District has four checking accounts (Petty Cash, Latch Key Grant, Clearing, and Special Purpose). Activity revenues are deposited into the Special Purpose Account while zoo admissions & donations are deposited directly into the Clearing Account. Special Purpose funds are then deposited into the Clearing Account where collectively all revenues are finally deposited to the County Treasury.

The District is making deposits monthly or bi-monthly into the County Treasury. Because timely deposits are not made, the District's cumulative account balances exceed the FDIC insured limit of \$100,000. In addition, the District is not benefiting from higher interest rates available through the County Treasury. Union Bank's current interest rate on checking accounts is approximately 0.15%.

Recommendations

Implement procedures that ensure cumulative account balances with Union Bank do not exceed FDIC limits. Make deposits at least weekly into the County Treasury.

Management's Response

Following the exit conference, the District implemented a weekly monitoring of all four bank accounts to insure that balances do not exceed the FDIC insured limit of \$100,000 and will make deposits weekly into the County Treasury as recommended.

Finding Four: Imprest cash funds were increased without proper approval.

The Internal Controls and Cash Manual (Chapter 4, page 4-4) require Districts to submit a written request to the ACR Internal Audits Section to increase cash funds totaling \$2,500 or less. The District has two cash funds (petty cash & zoo change fund) with amounts greater than authorized by the ACR. The current District staff does not know how the two imprest cash funds were increased without submitting a request to the ACR.

Recommendations

Review and follow the policies and procedures already established in the County's Internal Controls and Cash Manual to increase cash funds. Immediately deposit all overages in the Petty Cash Fund and Change Fund into the Cash Overage Fund (Fund AOV) using Revenue Source code 9970 (Other Revenue). Submit a written request to the ACR stating the purpose and justification for the fund increase to increase the zoo change fund.

Management's Response

The new Interim Director and Administrative Secretary had no direct knowledge of increased cash funds authorization. The District has prepared a written request to gain authorization for current imprest cash funds. The District will deposit overages as recommended with the County Treasurer to bring cash funds to authorized amount. The District will follow County Internal Controls and Cash Manual recommendations.

Finding Five: There was a lack of internal controls over receipt books.

The County's Internal Controls and Cash Manual (Chapter 6, page 6-7) requires departments to keep a receipt control record of County receipt books and to lock unused receipt books in a secure place. The following problems were found in regards to the receipt books:

- A control log was not maintained
- Receipt books were not locked in a secure area
- Receipt books were not issued in numerical order
- Four receipt books could not be accounted for

Recommendations

Assign one person the responsibility of issuing and controlling the blank receipt books. Develop a control log for all receipt books, set up a locked filing cabinet or other secure area to store the receipt books, make sure books are issued in numerical order (starting with the lowest number), and locate missing books.

Management's Response

Following the exit conference, the District began following auditor's recommendations. The District Manager is responsible for issuing and controlling the blank receipt books. The control log is maintained, receipt books are locked in a secure area, and the books are being issued in numerical order. An attempt to locate missing receipts books was not successful.

Finding Six: There was a lack of segregated duties in bank and cash fund reconciliations.

The County's Internal Controls and Cash Manual (ICCM, Chapter 2, page 2-3) states that no one person should be assigned concurrent duties that would allow him/her complete control over a transaction. The Administrative Clerk has a number of duties that allow her to have concurrent duties over a transaction (i.e., fund custodian, prepares & makes deposits, cash fund and bank reconciliations, issues and controls blank receipts, and signs checks). The following areas lacked segregation:

- The Administrative Clerk (fund custodian) was performing reconciliations of cash funds (ICCM, Chapter 4, page 4-6).
- The Administrative Clerk was preparing bank reconciliations, signing checks, and depositing cash (ICCM, Chapter 9, page 9-6).

Recommendations

Require administrative personnel to read and adhere to the Internal Controls and Cash Manual. Assign an employee other than the fund custodian and in a higher-ranking job code to perform the fund reconciliations of cash funds. Either assign another employee to perform bank reconciliations or reassign check signing & cash deposit duties.

Management's Response

Both the District Manager and the Administrative Clerk have read the Internal Controls and Cash Manual. As recommended the following duties have been reassigned to the District Manager:

- Monthly fund reconciliations of cash funds
- Monthly bank reconciliations on all four District accounts

The Administrative Clerk has registered to attend the County's Internal Controls and Cash Manual training class.

ML/Tom Sutton, Director
Office of Special Districts
March 19, 2004
Page 6

We would like to express our appreciation for the cooperation and assistance provided to the auditors during our field visits.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____

Douglas P. Austin
Accountant II
Internal Audits Division

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